THE ALDRICH BANKING PLAN AS IT AFFECTS THE PEOPLE

BY WILBER L. STONEX

The most of the articles appearing in the public prints concerning the Aldrich money and banking plan have been written by representatives of the banking interests, and except in minor details it is approved by them. I cannot, indeed, now recall having seen any written by representatives of the people. Yet it is important to remember that the relation existing between a banker and the patron of a bank is very much the same as that between buyer and seller—their interests are necessarily antagonistic. The borrower wants to get money at the lowest possible rate and the lender naturally wants to receive the highest. In any particular case the rate will naturally depend upon the available supply of money, although the rate may be arbitrarily fixed by an agreement between lenders regardless of the supply.

And considering the subject as a national problem, we must not forget that the borrowers always greatly exceed the lenders in number, and that a fundamental principle of political science is that the highest purpose of every civil government ought to be to secure the greatest good to the greatest number.

The world's experience is that in this particular—the obtaining at a fair price of their needed medium of exchange—the interests of the many, if cared for at all, must be cared for by the people as a whole acting through their Government.

An examination of Mr. Aldrich's proposed banking law shows that he would take from the people and give to the bankers the absolute control of the people's money. His plan is to place the final decision of such a vital question,

for instance, as the amount of money to be put in circulation in the hands of a board of forty-five members, not one of whom would hold his position by the votes of the people or of their representatives. Three of the members would be appointive officers of the Government—the Secretary of the Treasury, the Secretary of Commerce and Labor, and the Controller of the Currency. All of the rest would be chosen by the bankers whose banks would hold stock in the central bank, or " reserve association " as it is called, except three, who as officers of this association would be members *ex officio*. Of the others all but twelve may be officers of national banks and the excepted twelve may be directors of such banks. It may safely be assumed that the legislation of this large body would be carried on by methods similar to those prevailing in the Senate, and that if Mr. Aldrich himself were to be the presiding officer it would not be difficult for him, through committees deftly selected, to control its action.

It is apparent that in such a body there would be no opportunity for the people, or their representatives, to make their wishes known effectively if their wishes conflicted with those of the banking interests. It is as if the railroad companies should propose a central governing board composed of railroad officers and directors empowered to fix the traffic rates which the people are to pay; or if the making of the tariff rates should be delegated to a body representing only those who would be benefited by them.

For more than two hundred years there has been a continual controversy between the money-lending class and the people as to the amount of money which should be in circulation, and always, no matter what the amount may have been at any time, the money-lending class has considered it excessive and sought to force a contraction. In the colonial days there was practically no money in the hands of the people until, forced by necessity, the colonies themselves became their people's bankers and began to emit bills of credit for their relief. This was from the first opposed by those who controlled the little supply of money in existence, because it brought them in competition with the public loan offices and reduced the rates of interest. The bills of credit issued by the colonies were in the nature of loans of the public credit to those needing money who were able to give security for the repayment of the loans. As the loans were

repaid the bills were generally canceled by the loan officers and retired from circulation, or " sunk " as it was termed.

Franklin, in his *Autobiography,* tells of this controversy between the lenders and borrowers in 1729 in Pennsylvania and the part he took in it. He says:

"About this time there was a cry among the people for more paper money, only fifteen thousand pounds being extant in the province and that soon to be sunk. The wealthy inhabitants opposed any addition, being against all paper currency."

The principal part taken by Franklin in this controversy consisted in the publication of a pamphlet entitled *The Nature and Necessity of a Paper Currency,* of which he says:

"It was well received by the common people in general, but the rich men disliked it, for it increased and strengthened the clamor for more money."

In this pamphlet he gave the reason for the opposition of the money-lenders:

"Because a plentiful currency will lower interest and make it common to lend on less security."

The advantages of a plentiful currency he thus stated:

"It will tend to enliven trade exceedingly because people will find more profit in employing their money that way than in usury, and many that understand business very well, but have not a stock sufficient of their own, will be encouraged to borrow money to trade with when they can have it at a moderate interest."

In advising as to the issue of paper money and the rate of interest in Pennsylvania he said:

"I cannot see any good reason why four per cent. to the loan office should not be thought sufficient."

The economic principle upon which these colonial bills of credit were issued was the same as that on which our greenbacks are issued; and the method of putting them in circulation was very much the same as with the " *crédit foncier* " now in operation in France and as with the administration of the Advances to Settlers Act of New Zealand. Before the Revolution these bills were issued by all of the colonies and by their aid prosperity became universal. These issues were quite generally suspended during the Revolution at the request of the Continental Congress to give currency to its issues. After the Revolution, when the States began again to issue bills, the old controversy again

arose between the two classes, although the scarcity of money was such that the prevailing interest rate was one per cent. a month, and the manufacturing interests were crushed under it. Professor McMasters, in his *History of the American People,* in describing the alignment of interests in this controversy in the State of New York, says:

"On the one side were the importers, the holders of stock [obligations bearing interest], the speculators in cash as they were called, the moneyed men and the great body of creditors. . . . With the friends of the emission were the shop-keepers in the great towns, the merchants in the country villages, manufacturers, and debtors."

By a combination of the money-lending interests—those who with Hamilton and Morris favored bank emissions to the exclusion of all State issues, and those with Langdon, Ellsworth, and Wilson who opposed all paper issues—the Constitutional Convention kept out of the Constitution the proposed grant of power to the Federal Congress to emit bills of credit, and prohibited their emission by the States. The result was that the ratification of the Constitution left the people with no money but specie, caused a severe contraction of the currency and brought great distress. To provide the needed money, which now only private issues could supply, private banks of issue quickly came into existence. Hamilton, to the fullest extent, favored the principle of paper money, but to be issued by banks rather than by the Government and preferably by a single bank, which, like the bank proposed by Mr. Aldrich, should have entire control of the issue of all bank-notes in circulation. In his report to Congress in which he recommended the chartering of such a bank he unequivocally declared that he favored a plentiful supply of paper currency, even though the result would be to drive out of the country much of the little quantity of coin that was then in it. He said:

"It is certain that the vivification of industry by a full circulation, with the aid of a proper and well-regulated paper credit, may more than compensate for the loss of a part of the gold and silver of a nation."

And he also fully agreed with Franklin as to the benefit to a country of a low rate of interest; and he recommended that the bank which he advised Congress to charter should not be allowed to charge a higher interest or discount rate than six per cent. And he added:

"There is room to question whether the limit ought not rather to be five than six per cent. as proposed. It may with safety be taken for granted

that the former rate would yield an ample dividend, perhaps as much as the latter by the extension it would give to business. The natural effect of low interest is to increase trade and industry, because undertakings of every kind can be prosecuted with greater advantage. This is a truth generally admitted. . . . Everything, therefore, which tends to lower the rate of interest is peculiarly worthy of the cares of legislators."

It may be here noted that the modern fiction that low interest rates are dangerous because they tend to invite speculation had not then been invented.

Unhappily, but as might have been expected, the bank which was chartered on Hamilton's recommendation did not act upon his theory. Instead of assisting to increase the circulation, it endeavored to contract it. It limited its issue of bills to an amount not exceeding the specie held by it; and claiming a monopoly on the issue of bank-notes, it began a fierce attack on the State-chartered banks. The effect of this was to reduce the circulation from $7.77 per capita in 1795 to $6.22 in 1800. The policy of the second Bank of the United States was the same, and the consequences were even more disastrous.

After the expiration of the charter of the first bank, the Government afforded the people some relief by an issue of treasury notes, and private bank circulation was increased. In 1815, four years after the charter of the first Bank of the United States had expired, the per capita circulation had risen to $14.58. The second bank was chartered in 1816. Through its influence the treasury notes were retired, and by 1819 the circulation was contracted to $7.74 per capita, with the result of causing the great industrial and financial panic of that year.

Ever since that time, acting in accordance with the same selfish policy, the whole influence of the money interests has been constantly toward restricting the volume of currency; sometimes by a reduction of interest on the bonds securing circulation and sometimes by a direct tax on the circulation or by both. That a fair amount is now in circulation is due only to the demand of the people enforced through their representatives in Congress.

A contraction of the present volume is, as a matter of course, a part of the Aldrich plan.

This is to be effected by fixing as its permanent volume the present amount of national bank-notes. As no provision seems to be made for its increase as population increases,

the result of the increase of population will be to automatically reduce the per capita amount. I am unable to tell whether it also contemplates the retirement of the greenback, but as this is one of the constant demands of the banking interests, I suspect that it does, and that this is its "joker." One thing is certain, and that is that the banknotes to be issued under Mr. Aldrich's plan are not to be legal tender as between private citizens.

In another respect the Aldrich plan is not, in my opinion, in accord with sound economical principles or conducive to the public welfare. Its system of currency lacks the essential element of practical elasticity—that is, it does not provide a currency which will naturally and quickly adjust itself to the needs of any single community nor even of the entire country. It is this lack of elasticity which is the source of all our panics and the bane of our present system —a condition which exists nowhere else in the world, except to a slight degree in England. The opinion of Hamilton on this subject was the same as that of all economists whose opinions are not dictated by their personal interests. It was that the prime essential in any sound monetary system is that the volume of currency be subject only to the influence of the natural operation of the law of supply and demand. In indicating its application to the emissions of such a bank as he advised Congress to charter he showed that they could never be dangerously large. He said: "If more should be issued than necessary, it will return upon the bank."

Under the Aldrich plan, we are to start with an arbitrarily fixed amount of currency which he clearly considers excessive. If in the opinion of the money-lenders who would be in absolute control of the currency a larger amount should be at any time needed they may issue notes for such amount, but

> "the whole or any part of the first $100,000,000 of such notes shall pay to the Government an annual tax of three per cent.; above $100,000,000 and not more than $200,000,000 may be issued at an annual tax of four per cent.; above $200,000,000 and not more than $300,000,000 may be issued at an annual tax of five per cent.; all above $300,000,000 shall pay a tax of six per cent."

This is progressive rigidity, not natural elasticity.

Yet this penalizing the demand for an increase in the quantity of the tools of trade seems to be the only element

which gives any semblance of elasticity to the otherwise absolutely rigid volume of currency.

If we assume that six per cent. is the regular rate of interest with the initial volume of circulation, and the bankers decide, for the accommodation of their customers, to increase the amount of the currency by an amount not exceeding $100,000,000 and to pay the tax of three per cent. to get it, at what rate of interest will they loan it to their customers? If the bank is to pay the tax, it must do so at a loss and will simply decline to make the loan. If its customers are required to pay the tax in addition to the interest, the cost of the money will necessarily be so high as to prevent manufacturers from borrowing it, as they could not pay the cost and successfully compete with foreign manufacturers who can borrow at from three to four per cent.

The intimate relation between the manufacturing interests of a country and the prevailing interest rate is, or ought to be, generally known. More than one hundred years ago Secretary Gallatin showed to Congress how the difference between the interest rates in Europe and America handicapped the American manufacturers in their competition for the American market with those of Europe; and he proposed that Congress come to the aid of our manufacturers either by loaning them money, as the colonies had done, at a low rate of interest, or that an import duty be imposed for their protection.

The money interests preferred, then as now, to maintain the high interest rates and levy an import duty, and this was done. And one is justified in doubting whether it was not, after all, the money-lenders who were protected by the duties which the American consumer in the end paid. In my opinion the plan of Mr. Fowler, although it leaves something to be desired, is far better than that of Mr. Aldrich for those whom Franklin described as "the common people."

WILBER L. STONEX.